

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON GREATER KOKSTAD MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Greater Kokstad Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget information with actual information for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Kokstad Municipality as at 30 June 2014, and its financial performance

and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Going concern

8. As disclosed in note 41 to financial statements, there is significant pressure on municipality's cash reserves and its current liabilities exceed its current assets by R13,22 million. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

Significant uncertainties

9. As disclosed in note 35 to the financial statements, the municipality is a defendant in various civil claims. The municipality is opposing the claims as it believes these claims to have no substance. The ultimate outcome of these matters cannot presently be determined and no provision or liability that may result has been made in the financial statements.

Material losses and impairments

10. As disclosed in note 28 to the financial statements, material losses amounting to R12, 76 million were incurred as a result of a write-off of irrecoverable trade debtors.
11. As disclosed in note 3 to the financial statements, material debt impairment of R23, 01 million was incurred as a result of the annual review of outstanding consumer debtors.
12. As disclosed in note 43 to the financial statements, material electricity losses of R3, 24 million (4 560 150 units) were incurred.

Material underspending of capital budget

13. As disclosed in the statement of comparison of budget information with actual information, the municipality has materially underspent their budget on capital expenditure to the amount of R20,13 million. As a consequence, the municipality has not achieved its planned targets for infrastructure planning and development objective as per the approved service delivery and budget implementation plan.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Objective: Infrastructure planning and development on pages xx to xx
18. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
19. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
20. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
21. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objective.

Additional matter

22. Although no material findings concerning the usefulness and reliability of the performance information were identified in the annual performance report, I draw attention to the following matter below.

Achievement of planned targets

23. Refer to the annual performance report on pages xx to xx for information on the achievement of the planned targets for the year.

Compliance with legislation

27. I performed procedures to obtain evidence that the municipality has complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:

Annual financial statements

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of the cash flow statement and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

25. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Internal control

28. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

29. Management did not respond in a timely manner to address the matters of accurate financial statements and the monitoring of compliance with key legislation.

OTHER REPORTS

Investigations

30. KwaZulu-Natal Provincial Treasury performed two investigations at the request of the municipality which covered the periods 2012-13 and 2013-14 respectively. The investigations were initiated based on an irregular award to a service provider and an allegation of possible cash theft by municipal employees. These investigations are currently in progress.

Pietermaritzburg

28 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence